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8
9 **UNITED STATES BANKRUPTCY COURT**
10 **NORTHERN DISTRICT OF CALIFORNIA**
11 **OAKLAND DIVISION**

12 In re

Case No. 21-40363

13 CALIFORNIA-NEVADA METHODIST
14 HOMES¹,

Chapter 11

15 Debtor.

**MOTION OF DEBTOR CALIFORNIA-
NEVADA METHODIST HOMES FOR
ENTRY OF INTERIM AND FINAL
ORDERS (I) AUTHORIZING USE OF
CASH COLLATERAL; (II) GRANTING
ADEQUATE PROTECTION; AND (III)
SCHEDULING FINAL HEARING**

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27 ¹ The last four digits of the Debtor's federal tax identification number are 2411. The
mailing address for the Debtor is 1850 Alice Street Oakland, CA 94612.

1 California-Nevada Methodist Homes, as debtor and debtor-in-possession (the
2 "**Debtor**") in the above-captioned chapter 11 case (the "**Chapter 11 Case**") respectfully
3 requests that the Court enter an interim order, in the form attached as **Exhibit A** hereto
4 (the "**Interim Order**") and a final order, in the form attached as **Exhibit B** hereto (the
5 "**Final Order**"), pursuant to sections 361, 363, 1107 and 1108 of title 11 of the United
6 States Code, 11 U.S.C. §§ 101, et seq. (the "**Bankruptcy Code**") (i) authorizing the use
7 of cash collateral on an interim and final basis, (ii) granting adequate protection, and (iii)
8 scheduling a final hearing.

1 **INTRODUCTORY STATEMENT**

2 By this Motion, Debtor requests entry of the Interim Order and Final Order
3 granting, among other things, authorizing the use of cash collateral on the following
4 terms:

- 5 (1) **Entities with Interest in Cash Collateral:** Wilmington Trust, National
6 Association and Office of Statewide Health Planning and Development of
7 the State of California;
- 8 (2) **Purpose of the Use of Cash Collateral:** To be used in the ordinary
9 course of business for the categories of expenses listed in the Budget (as
10 defined below), including the payment of employee wages, employee
11 benefits, utilities, taxes, insurance premiums, medical supplies, and
12 expenses to others who in the judgment of the Debtor's management,
13 provide the essential services needed to operate, maintain and insure the
14 Debtor's assets as well as to retain and pay costs of professionals,
15 consultants and advisors who will enable the Debtor to reorganize or, if
16 appropriate, market the Debtor for potential sale;
- 17 (3) **Duration and Other Terms:** Pursuant to the terms of the Interim Order
18 from the Petition Date until the earlier of June 15, 2021 or the entry of the
19 Final Order, and thereafter pursuant to the terms of the Final Order. Use of
20 the cash collateral is to be consistent with the Budget and not to exceed a
21 10% variance from the Budget measured every 4 weeks of the Budget.
- 22 (4) **Adequate Protection:** Replacement liens in Debtor's assets subject to a
23 Carve-Out for certain professional fees and statutory U.S. Trustee fees.
24 Replacement liens will be, to the extent provided by section 507(b) of the
25 Bankruptcy Code, an allowed superpriority administrative expense claim in
26 the Chapter 11 Case and any Successor Case.

1 **MEMORANDUM OF POINTS AND AUTHORITIES**

2 **I. JURISDICTION AND VENUE**

3 This Court has jurisdiction over the subject matter of this motion (the “**Motion**”)
4 pursuant to 28 U.S.C. §§ 157 and 1334, the *Order Referring Bankruptcy Cases and*
5 *Proceedings to Bankruptcy Judges*, General Order 24 (N.D. Cal. Feb. 22, 2016), and
6 Rule 5011-1(a) of the Bankruptcy Local Rules for the United States District Court for the
7 Northern District of California (the “**Bankruptcy Local Rules**”). Venue is proper in this
8 Court pursuant to 28 U.S.C. §§ 1408 and 1409. This matter is a core proceeding under
9 28 U.S.C. § 157(b). The Debtor consents to the entry by the Court of a final order with
10 respect to this Motion

11 **II. BACKGROUND**

12 **A. General Background**

13 On March 16, 2021 (the “**Petition Date**”), the Debtor commenced the Chapter 11
14 Case by filing a voluntary petition under chapter 11 of the Bankruptcy Code. The Debtor
15 continues to operate its business and manage its property as a debtor in possession
16 pursuant to sections 1107(a) and 1108 of the Bankruptcy Code. No official committee of
17 unsecured creditors has yet been appointed in the Case.

18 Additional information about the Debtor’s business and affairs, capital structure
19 and prepetition indebtedness, and the events leading up to the Petition Date is set forth in
20 the Declaration of Steven Nerger in Support of Debtor’s “First Day Motions” (the “**First**
21 **Day Declaration**”), filed contemporaneously with this Motion, which is incorporated
22 herein by reference.

23 **B. The State of California Issues Bonds at Debtor’s Request**

24 On or about October 1, 2015 the California Health Facilities Financing Authority
25 (the “**Authority**”), a public instrumentality of the State of California, issued \$32,920.000 in
26 revenue bonds (the “**Bonds**”) at the request of the Debtor. In connection with the
27 issuance of the Bonds, the Authority entered into an Indenture Agreement with

1 Wilmington Trust, National Association ("**Wilmington**"), under which Wilmington became
2 the indenture trustee for the Bonds and representative of the bondholders.

3 **C. Debtor Borrows the Bond Proceeds**

4 Also on or about October 1, 2015 the Debtor and various counterparties entered
5 into a series of related transactions in connection with the issuance of the Bonds. First,
6 the Authority and Debtor entered into a Loan Agreement under which the Authority
7 agreed to lend the proceeds from the sale of the Bonds to the Debtor, and in return
8 Debtor agreed to make payments to Wilmington for the payment of interest and
9 repayment of principal to the holders of the Bonds. Second, the Debtor, the Authority,
10 and the Office of Statewide Health Planning and Development of the State of California
11 ("**Cal-Mortgage**"), a separate instrumentality of the State of California, entered into a
12 "Contract of Insurance" whereby Cal-Mortgage agreed to insure Debtor's repayment of
13 the Bonds. Third, the Debtor executed two separate deeds of trust (the "**Deeds of**
14 **Trust**"), under which it which it agreed to give Cal-Mortgage and the Authority a security
15 interest in Debtor's two CCRC facilities and other collateral (collectively, the "**Collateral**"),
16 including, among other things, "[a]ll accounts, accounts receivable and other rights to
17 payment of money now owned or hereafter acquired" by the Debtor, including "deposit
18 accounts." Fourth, the Authority assigned its rights under the Loan Agreement, the
19 Contract of Insurance, and the Deeds of Trust to Wilmington. Fifth, Debtor, Cal-Mortgage,
20 Wilmington, and California Bank & Trust entered into a Deposit Account Control
21 Agreement with respect to Debtor's bank accounts at California Bank & Trust. And sixth,
22 Cal-Mortgage and Wilmington filed a UCC-1 financing statement declaring their security
23 interest in the Collateral.

24 The net effect of these interrelated transactions is that (1) the Debtor borrowed
25 \$32,920,000 in proceeds from the issuance of the Bonds (the "**Bond Debt**"); (2) Debtor
26 agreed to repay the \$32,920,000 Bond Debt to Wilmington with interest; (3) Cal-Mortgage
27 agreed to guarantee Debtor's repayment of the Bond Debt to Wilmington; and (4) Debtor

1 granted a security interest in its cash to Cal-Mortgage and to Wilmington to secure
2 Debtor's repayment of the Bond Debt.

3 **D. The Bonds**

4 The Bonds currently accrue interest at an annual interest rate of 5%. Interest is
5 paid to the holders of the Bonds semi-annually on January 1 and July 1 of each year. A
6 portion of the Bonds mature annually on July 1 of each year until 2026, and thereafter a
7 portion of the Bonds matures on July 1 in 2030, 2035, and 2045. The principal amount
8 that matures on July 1, 2021 is \$630,000. Based on the current outstanding principal
9 balance of \$30,225,000, the semiannual interest payment for the Bonds on July 1, 2021
10 will be \$755,625. Pursuant to the terms of the Loan Agreement, the Debtor is responsible
11 for making monthly payments to Wilmington sufficient to cover 1/6 of the upcoming semi-
12 annual interest payment and 1/12 of the principal balance scheduled to mature on the
13 following maturity date. The Debtor has not made monthly payments on the Bond Debt
14 since February 2020. As a result, Wilmington has drawn down on a reserve fund
15 established when the Bonds were issued (the "**Bond Reserve Fund**"). The balance of
16 the Bond Reserve Fund as of February 28, 2021 was \$785,120.80, meaning that the
17 Bond Reserve Fund is sufficient to cover the semi-annual interest payment on July 1,
18 2021 and a portion of the principal balance that will mature on July 1, 2021, but the Bond
19 Reserve Fund is insufficient to cover approximately \$600,000 of the principal repayment
20 due on July 1, 2021.

21 **III. THE DEBTOR'S NEED FOR THE USE OF CASH COLLATERAL**

22 The Debtor has determined that absent the use of cash collateral, it will be unable
23 to operate its business during the Chapter 11 Case, irreparably harming the Debtor's
24 estate and creditors. If the Debtor is unable, on a consistent basis, to maintain its
25 business and demonstrate financial stability to existing and future residents, the Debtor
26 will lose existing residents, key employees, and vendors, will be unable to attract new
27 residents and will ultimately be forced to cease operations. This will cause harm to the

1 Debtor, but also to its residents who expect a continuum of quality care, potentially
2 leaving residents without food, medical supplies, proper medical care, and other services
3 they require. Therefore, the Debtor's immediate access to cash collateral is necessary to
4 preserve and maximize the value for the benefit of all parties in interest. Thus, the use of
5 cash collateral is essential to Debtor's continued ability to operate, maintain the value of
6 its assets and properly care for its residents until consummation of a plan.

7 The Debtor has an immediate and critical need to use cash collateral to pay, in
8 accordance with the 13-week budget ("**Budget**") which will be attached to the proposed
9 Interim Order as Exhibit 1, various items in the ordinary course of business and as
10 authorized by the Court, including employees, employee benefits, utilities, taxes,
11 pharmacy items and dietary materials and to others who in the judgment of the Debtor's
12 management, provide the essential services needed to operate, maintain and insure the
13 Debtor's assets. In addition, the Debtor requires the use of cash collateral to retain and
14 pay costs of professionals, consultants and advisors who will enable the Debtor to
15 reorganize the Debtor or, if appropriate, market the Debtor for potential sale, in a manner
16 that maximizes value for the Debtor's estate and its creditors, as may be approved by the
17 Court. Taken together, the services provided by all of the foregoing parties and other
18 entities are critical to the preservation of the Debtor's business and asset value.

19 The Debtor reasonably believes that the Budget will be adequate, considering all
20 available assets, to pay all administrative expenses due or accruing during the period
21 covered by the Budget. Without use of cash collateral, the Debtor would suffer immediate
22 and irreparable harm and the entire bankruptcy proceeding will be jeopardized to the
23 significant detriment of the Debtor's estate and its creditors.

24 After considering its alternatives, the Debtor has concluded that the use of cash
25 collateral pursuant to the terms of the Interim Order and Final Order represents the best
26 option available to interested parties, which funds will be used to maintain the Debtor's
27 assets and maintain its high standards for the benefit of its residents during the Chapter

1 11 Case. The Debtor believes that the terms of the use of cash collateral contained in the
2 Interim Order and Final Order protects Wilmington and Cal-Mortgage against diminution
3 in the value of their interests in the Collateral because the use, sale, or lease of the cash
4 collateral will, among other things, preserve the value of the Debtor as a going concern
5 and preserve the value of the Debtor's facilities. The Debtor therefore believes the terms
6 of the Interim Order and Final Order are fair and reasonable, reflect the Debtor's exercise
7 of prudent business judgment consistent with its fiduciary duties, and are supported by
8 fair consideration.

9 At a minimum, the Debtor's inability to use cash collateral would disrupt Debtor's
10 operations as a going concern, would severely hamper any efforts to market the Debtor
11 and/or its facilities for potential sale, would eliminate or significantly decrease the
12 possibility of confirmation of a plan of reorganization, and would otherwise not be in the
13 best interests of the Debtor, its estate, or creditors, including the residents and the
14 bondholders.

15 At this time, the Debtor is not contemplating the need for postpetition financing.
16 Instead, the Debtor intends to operate its business solely on the use of the existing cash
17 collateral. Access to existing cash collateral will provide the Debtor with the liquidity
18 necessary to ensure that the Debtor has sufficient working capital and liquidity to operate
19 its business, maintain its high standard of resident care, and thus preserve and maintain
20 the value of the Debtor's estates. Without access to such liquidity, the Debtor and its
21 estate will face irreparable harm.

22 **IV. RELIEF REQUESTED**

23 By this Motion, the Debtor requests that this Court enter an order pursuant to
24 sections 361 and 363 of the Bankruptcy Code (i) authorizing the use of cash collateral on
25 an interim and final basis, (ii) granting adequate protection in the form of replacement
26 liens, and (iii) scheduling a final hearing on the Motion.

Pursuant to Bankruptcy Rule 4001(b)(1)(B), the following is a concise statement of the material provisions of the Interim Order:

Material Terms	Summary	Reference to Interim Order
4001(b)(1)(B)(i) – entity with interest	Wilmington and Cal-Mortgage	¶ 3.
4001(b)(1)(B)(ii) – purpose for use	Expenses in the ordinary course of business for categories of expenses listed in the Budget	¶ 2; Exh. 1.
4001(b)(1)(B)(iii) – material terms and duration of use	The interim use of cash collateral from the Petition Date through the earlier of June 15, 2021 or the date a Final Order is entered to fund its day-to-day operations, including payroll for its employees and ongoing services to their residents. The Debtor also requests the use of cash collateral on a final basis pursuant to the terms of a Budget, which currently runs through June 15, 2021, provided, however, that Debtor may use cash collateral in excess of the aggregated amount of operating disbursements not to exceed ten percent (10%) (the “ Variance ”) measured every 4 weeks of the Budget.	¶¶ 2, 9, 10.
4001(b)(1)(B)(iv) – liens, cash payments, or other adequate protection to be provided to entity with interest	<p>Wilmington and Cal-Mortgage are entitled to receive adequate protection to the extent of any diminution in value of its interests in the Collateral. The proposed Interim Order provides for Wilmington and Cal-Mortgage to receive replacement liens (the “Adequate Protection Liens”) to the same extent, validity and priority as their prepetition liens (the “Prepetition Liens”).</p> <p>The Adequate Protection Liens shall be subject to (a) allowed professional fees and disbursements of professionals (i) retained by the Debtor, pursuant to Bankruptcy Code section 327 and (ii) by professionals retained by the official committee of unsecured creditors, if any, pursuant to Bankruptcy Code section 1103(a) and (b) statutory fees payable to the U.S. Trustee pursuant to 28 U.S.C. § 1930(a)(6), together with the statutory rate of interest, and any fees payable to the Clerk of the Bankruptcy Court (collectively, the “Carve-Out”) and shall otherwise be junior only to any valid, perfected, unavoidable liens or security interests that are superior to the Prepetition Liens in existence as of the Petition Date, or any valid and unavoidable liens or security interests that are senior in priority to the Prepetition Liens that are</p>	<p>¶¶ 3, 4.</p> <p>¶ 4</p>

Material Terms	Summary	Reference to Interim Order
4001(b)(1)(B)(iv) – liens, cash payments, or other adequate protection to be provided to entity with interest (continued)	<p>perfected subsequent to the Petition Date as permitted by section 546(b) of the Bankruptcy Code.</p> <p>The Adequate Protection Liens shall not be made subject to or <i>pari passu</i> with any lien or security interest heretofore or hereinafter in the Chapter 11 Case or in any other proceedings superseding or related to the Chapter 11 Case (collectively, the “Successor Case”), and shall be valid and enforceable against any trustee appointed in the Chapter 11 Case or any Successor Case, or upon the dismissal of the Chapter 11 Case. The Adequate Protection Liens shall not be subject to sections 510, 549, or 550 of the Bankruptcy Code. No lien or interest avoided and preserved for the benefit of the estate pursuant to section 551 of the Bankruptcy Code shall be <i>pari passu</i> with or senior to the Prepetition Liens or the Adequate Protection Liens. Notwithstanding anything else in the Interim Order to the contrary, the cash collateral may be used for payment of the Carve-Out.</p> <p>As further adequate protection Wilmington and Cal-Mortgage shall be granted, subject to the Carve-Out, as, and to the extent provided by section 507(b) of the Bankruptcy Code, an allowed superpriority administrative expense claim in the Chapter 11 Case and any Successor Case (the “Adequate Protection Superpriority Claims”). Except as set forth herein, the Adequate Protection Superpriority Claims shall have priority over all administrative expense claims and unsecured claims against the Debtor or its estate, now existing or hereafter arising, of any kind or nature whatsoever, as and to the extent provided by Bankruptcy Code Section 507(b); provided, however, that the Adequate Protection Superpriority Claims shall be subject to the Carve-Out.</p> <p>As further adequate protection, the Debtor shall provide to Wilmington and Cal-Mortgage (or their respective counsels of record, if any) on Wednesday of each week (commencing with the second week after the Petition Date), a weekly report in the same form as the Budget indicating all receipts received and disbursements made by the Debtor in the week ending the prior Friday</p>	<p>¶ 4</p> <p>¶¶ 5, 6</p> <p>¶ 8</p>

Material Terms	Summary	Reference to Interim Order
	compared to the Budget and detailing any variances of more than 10% from the disbursements and receipts in the Budget.	

V. LEGAL ARGUMENT

Under section 363(c)(2) of the Bankruptcy Code, a debtor in possession may not use cash collateral unless (a) each entity that has an interest in such collateral consents; or (b) the court, after notice and a hearing, authorizes such use, sale or lease in accordance with the provisions of this section. 11 U.S.C. §363(c)(2).

In the case at bar, the Court should allow the use of cash collateral because the interest of Wilmington and Cal-Mortgage are adequately protected. Section 361 of the Bankruptcy Code provides a *non-exclusive* list of ways to provide adequate protection, including periodic cash payments, the grant of liens on new collateral, and replacement liens. 11 U.S.C. §361. What constitutes adequate protection must be decided on a case by case basis. *In re O'Connor*, 808 F.2d 1393, 1396 (10th Cir. 1987). The focus of the adequate protection requirement is to protect a secured creditor from diminution in the value of its interest in the collateral during the period of use. *In re Swedeland Dev. Group, Inc.*, 16 F.3d 552, 564 (3rd Cir. 1994).

The Debtor submits that the proposed adequate protection to be provided to the Wilmington and Cal-Mortgage, specifically, the granting of the Adequate Protection Liens and the Adequate Protection Superpriority Claims, along with periodic reporting requirements, is sufficient under the particular circumstances of this Case. The Debtor submits that the proposed adequate protection is appropriate and sufficient to protect Wilmington and Cal-Mortgage from any diminution in value of their collateral. The cash collateral will be used for funding business operations and allowing the Debtor to transition into the Chapter 11 Case. Immediate access to this liquidity will permit the

1 Debtor to fund payroll, pay vendors, provide patient care, and otherwise continue
2 business in the ordinary course. If Cash Collateral is not available, the Debtors will
3 dissipate value to the detriment of Wilmington, Cal-Mortgage, and other stakeholders,
4 including employees and patients. Thus, the use of cash collateral will protect
5 Wilmington's and Cal-Mortgage's security interests by preserving the value of the
6 Collateral. See *In re Salem Plaza Assocs.*, 135 B.R. 753, 758 (Bankr. S.D.N.Y. 1992)
7 (holding that a debtor's use of cash collateral to pay operating expenses, thereby
8 "preserv[ing] the base that generates the income stream," provided adequate protection
9 to the secured creditor). See also *Save Power Ltd. v. Pursuit Athletic Footwear, Inc. (In re*
10 *Pursuit Athletic Footwear, Inc.)*, 193 B.R. 713, 716 (Bankr. D. Del. 1996); *In re 499 W.*
11 *Warren St. Assocs., Ltd. P'ship*, 142 B.R. 53, 56 (Bankr. N.D.N.Y. 1992).

12 In light of the foregoing, the Debtor submits that the proposed adequate protection
13 to be provided is appropriate and necessary to protect Wilmington and Cal-Mortgage
14 against any diminution in value and is also fair and appropriate on an interim basis under
15 the circumstances of this case and to ensure that the Debtor is able to continue using
16 cash collateral in the near term, for the benefit of all parties in interest and its estate. In
17 order to avoid immediate and irreparable harm and prejudice to the Debtor, its estate and
18 all parties in interest, the Debtor requests that the Court authorize the Debtor to use cash
19 collateral on an interim basis and schedule a hearing to consider entry of a final order.

20 VI. NOTICE

21 The Debtor will serve notice of this Motion upon: (i) the Office of the United States
22 Trustee; (ii) Debtor's list of creditors holding the twenty (20) largest unsecured claims; (iii)
23 the Internal Revenue Service; (iv) the United States Attorney's Office for the Northern
24 District of California; (v) the California Health Facilities Financing Authority; (vi) the Office
25 of Statewide Health Planning and Development of the State of California; (vii) Wilmington
26 Trust, National Association; and (viii) all parties who have formally appeared in this
27 Chapter 11 Case and requested service pursuant to Bankruptcy Rule 2002. In light of

1 the nature of the relief requested, the Debtor submits that no other or further notice is
2 necessary.

3 No prior motion for the relief requested herein has been made by the Debtor to this
4 or any other court.

5 WHEREFORE, the Debtor respectfully requests that this Court enter an interim
6 order, in the form attached hereto as **Exhibit A** and a final order, in the form attached
7 hereto as **Exhibit B**: (i) authorizing the use of cash collateral on an interim basis; (ii)
8 granting adequate protection; (iii) scheduling a final hearing; and (iv) granting the Debtor
9 such other and further relief as is just and proper under the circumstances.

10
11 DATED: March 16, 2021

Respectfully submitted,

12 HANSON BRIDGETT LLP

13
14 By: /s/ Neal L. Wolf

15 NEAL L. WOLF
16 ANTHONY J. DUTRA

17 *Proposed Attorneys for Debtor*
18 *and Debtor in Possession*
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8 **SUPERIOR COURT OF THE STATE OF CALIFORNIA**
9 **COUNTY OF SAN FRANCISCO**

10
11 CALIFORNIA-NEVADA METHODIST
HOMES,¹

12 Debtor.

Case No. 21-40363

13 **INTERIM ORDER (A) AUTHORIZING**
14 **POST-PETITION USE OF CASH**
15 **COLLATERAL, (B) GRANTING**
16 **ADEQUATE PROTECTION, (C)**
17 **SCHEDULING A FINAL HEARING**
18 **PURSUANT TO BANKRUPTCY RULE**
19 **4001(B), AND (D) GRANTING RELATED**
20 **RELIEF**

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26 ¹ The last four digits of the Debtor's federal tax identification number are 2411. The
27 mailing address for the Debtor is 1850 Alice Street Oakland, CA 94612.

Upon consideration of the motion (the “**Motion**”)² of California-Nevada Methodist Homes, as debtor and debtor in possession (the “**Debtor**”) in the above-captioned chapter 11 case (the “**Chapter 11 Case**”) pursuant to section 105, 361, 362, and 363 of title 11 of the United States Code, 11 U.S.C. §§ 101-1532 (as amended, the “**Bankruptcy Code**”) for entry of an interim order and final order (i) authorizing the use of cash collateral, (ii) granting adequate protection, and (iii) providing related relief; and the Court having jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334 and the *Order Referring Bankruptcy Cases and Proceedings to Bankruptcy Judges*, General Order 24 (N.D. Cal. Feb. 22, 2016), and Rule 5011-1(a) of the Bankruptcy Local Rules for the United States District Court for the Northern District of California (the “**Bankruptcy Local Rules**”); and this matter being a core proceeding pursuant to 28 U.S.C. § 157; and venue of these Chapter 11 Cases and the Motion are proper in this District pursuant to 28 U.S.C. §§ 1408 and 1409; and due and proper notice of the Motion was sufficient under the circumstances, and it appearing that other or further notice need not be provided; and the Court having considered the Motion and the First Day Declaration and having considered the statements of counsel and the evidence adduced with respect to the Motion at the hearing held before this Court to consider the Motion on an interim basis (the “**Interim Hearing**”); and the Court having found that the legal and factual bases set forth in the Motion and at the Interim Hearing establish good and sufficient just cause for the relief granted in this interim order (the “**Interim Order**”),

IT IS HEREBY ORDERED THAT:

1. The Motion is hereby **GRANTED**, on an interim basis, to the extent set forth in this Interim Order. Any objections to the Motion with respect to entry of this Interim Order to the extent not withdrawn, waived or otherwise resolved, and all reservation of

² Capitalized words not otherwise defined herein shall have the same meanings ascribed to such terms in the Motion.

rights included therein, are hereby denied and overruled. The rights of all parties in interest to object to the entry of a final order (the “**Final Order**”) on the Motion are reserved.

2. Subject to the terms and conditions set forth in this Interim Order, the Debtor is, through and including the earlier of June 15, 2021 or the entry of a Final Order on the Debtor’s use of cash collateral, authorized pursuant to Bankruptcy Code sections 105, 361, 362, and 363, and Bankruptcy Rules 2002, 4001, 6003, and 9014 to use cash collateral on an interim basis. The cash collateral may only be used to fund the types and corresponding amounts of itemized expenditures contained in the budget attached hereto as Exhibit 1 (the “**Budget**”); provided, however, that the Debtor may use cash collateral in excess of the aggregate operating disbursements so long as the percentage of deviation of the aggregated expenses during the 4 week measuring period does not exceed ten percent (10%) (the “**Variance**”).

3. As adequate protection for the interest of Wilmington and Cal-Mortgage, for, and solely to the extent of, any diminution in the value of Wilmington’s and Cal-Mortgage’s respective interest in the Collateral resulting from (i) the Debtor’s use of cash collateral, (ii) the use, sale, or lease of the Collateral (other than cash collateral) pursuant to section 363(c) of the Bankruptcy Code, and (iii) the imposition of the automatic stay pursuant to section 362(a) of the Bankruptcy Code, Wilmington and Cal-Mortgage are hereby granted a continuing replacement security interest in, and lien (collectively, the “**Adequate Protection Liens**”), which shall have the same priority, validity, force, extent, status of perfection (if any), and effect as the prepetition liens that they replace (the “**Prepetition Liens**”), effective as of the Petition Date without the necessity of Wilmington or Cal-Mortgage taking any further action, upon the right, title and interest in the following property of the Debtor:

5. As further adequate protection of the interests of Wilmington and Cal-Mortgage in the Collateral against any diminution in value of such interests in the Collateral Wilmington and Cal-Mortgage are hereby granted, subject to the Carve-Out, as, and to the extent provided by section 507(b) of the Bankruptcy Code, an allowed superpriority administrative expense claim in the Chapter 11 Case and any Successor Case (the “**Adequate Protection Superpriority Claims**”).

6. Except as set forth herein, the Adequate Protection Superpriority Claims shall have priority over all administrative expense claims and unsecured claims against the Debtor or its estate, now existing or hereafter arising, of any kind or nature whatsoever, as and to the extent provided by Bankruptcy Code Section 507(b); provided, however, that the Adequate Protection Superpriority Claims shall be subject to the Carve-Out.

7. Nothing herein shall waive, impair, or preclude the right of the Debtor, or any other party in interest, to seek to avoid the liens of the Wilmington or Cal-Mortgage on the grounds that said liens were not perfected in a due and proper manner, or on any other appropriate grounds.

8. As additional protection for the Debtor's use of cash collateral, the Debtor shall provide to Wilmington and Cal-Mortgage (or their respective counsels of record, if any) on Wednesday of each week (commencing with the second week after the Petition Date), a weekly report in the same form as the Budget indicating all receipts received and disbursements made by the Debtor in the week ending the prior Friday compared to the Budget and detailing any variances of more than 10% from the disbursements and receipts in the Budget.

9. Debtor's ability to use cash collateral under this Interim Order shall terminate upon the entry of the Final Order or additional interim order regarding use of cash collateral.

10. Notwithstanding Bankruptcy Rule 4001(a)(1), this Interim Order is not stayed and shall be effective upon the date of its entry on the docket.

11. The automatic stay of section 362 of the Bankruptcy Code is hereby modified to permit the performance of each and every right and obligation set forth in this Interim Order.

12. The Debtor is hereby authorized to take such actions and to execute such documents as may be necessary to implement the relief granted by this Interim Order.

13. The Court has and will retain jurisdiction to enforce this Interim Order according to its terms.

14. The hearing to consider the entry of a Final Order on the Motion will be held on _____, 2021 at _____ a.m/p.m. (PDST). The Debtor shall, on or before _____, mail copies of a notice of the entry of this Interim Order, together with a copy of this Interim Order and a copy of the Motion, to the parties having been given notice of the Interim Hearing, to any party that has filed prior to such date a request for notices with this Court and to counsel for any statutory committee of unsecured creditors appointed pursuant to Bankruptcy Code section 1102, the Internal Revenue Service, all state taxing authorities in the states in which the Debtor has tax liability, any federal or state regulatory authorities governing the Debtor's industry, the U.S. Attorney's Office, the California Attorney General, Wilmington (or its counsel of record, if any), Cal-Mortgage (or its counsel of record, if any), and all parties asserting liens against or security interest in, any of the collateral that is addressed in this Interim Order. The notice of entry of this Interim Order shall state that any party in interest objecting to the entry of the Final Order authorizing the use of cash collateral shall file written objections with the United States Bankruptcy Court Clerk for the Northern District of California no later than 4:00 p.m. (PDST) on _____, 2021, and objections shall be served so that the same are received on or before such date to: (i) proposed counsel to the Debtor: Hanson

1 Bridgett LLP, 1676 N. California Blvd., Suite 620, Walnut Creek, CA 94596, Attn: Neal
2 Wolf (nwolf@hansonbridgett.com), (ii) counsel to any statutory committee appointed in
3 the Chapter 11 Case; and (iii) the U.S. Trustee, 450 Golden Gate Avenue, 5th Floor,
4 Suite #05-0513 San Francisco, CA 94102, Attn: _____).

5 *** END OF ORDER ***
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California-Nevada Methodist Homes
13-Week Cash Flow
Cash Flow Summary

Description	March			April				May				June		TOTAL
	19-Mar	26-Mar	2-Apr	9-Apr	16-Apr	23-Apr	30-Apr	7-May	14-May	21-May	28-May	4-Jun	11-Jun	
	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	
REVENUE														
Net Sales														
Monthly Care Fees	210	210	210	263	263	263	263	262	262	262	262	208	208	3,145
Private Fees	52	52	52	65	65	65	65	66	66	66	66	52	52	782
Medicare	38	38	38	49	49	49	49	49	49	49	49	38	38	581
Other Income	1	1	1	1	1	1	1	1	1	1	1	1	1	12
Misc Revenue	2	2	2	2	2	2	2	2	2	2	2	2	2	28
Amortization of Entrance Fees	37	37	37	46	46	46	46	48	48	48	48	38	38	563
Admin Revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Sales	341	341	341	425	425	425	425	427	427	427	427	339	339	5,111
RECEIPTS														
Receipts														
A/R Collections	302	302	302	379	379	379	379	379	379	379	379	301	301	4,543
Other Cash Collections														-
Cash Receipts	302	302	302	379	379	379	379	379	379	379	379	301	301	4,543
DISBURSEMENTS														
Payroll and Benefits														
Payroll	143	143	143	179	179	179	179	180	180	180	180	144	144	2,153
Payroll Taxes	12	12	12	16	16	16	16	16	16	16	16	12	12	186
Benefits	37	37	37	48	48	48	48	47	47	47	47	39	39	569
All Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Payroll	192	192	192	243	243	243	243	243	243	243	243	195	195	2,907
Payroll%	56.4%	56.4%	56.4%	57.1%	57.1%	57.1%	57.1%	56.8%	56.8%	56.8%	56.8%	57.4%	57.4%	56.9%
Operational Disbursements														
Food Service	36	36	36	44	44	44	44	44	44	44	44	35	35	530
Housekeeping	3	3	3	4	4	4	4	4	4	4	4	3	3	42
Laundry	0	0	0	0	0	0	0	0	0	0	0	0	0	3
Plant and Operations	14	14	14	17	17	17	17	17	17	17	17	14	14	205
Utilities	23	23	23	29	29	29	29	29	29	29	29	23	23	350
Nursing	8	8	8	9	9	9	9	9	9	9	9	8	8	113
Assisted Living	1	1	1	1	1	1	1	1	1	1	1	1	1	8
Administration	41	41	41	52	52	52	52	50	50	50	50	40	40	612
Marketing	2	2	2	3	3	3	3	3	3	3	3	3	3	36
Medical Receptionist	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Activities	2	2	2	3	3	3	3	3	3	3	3	2	2	33
Medical Care Ancillary	11	11	11	14	14	14	14	14	14	14	14	11	11	171
Inservice Education	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Home Office Charges	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Social Services	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Misc.	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Disbursements	140	140	140	176	176	176	176	175	175	175	175	140	140	2,105

Description	March			April				May				June		TOTAL
	19-Mar	26-Mar	2-Apr	9-Apr	16-Apr	23-Apr	30-Apr	7-May	14-May	21-May	28-May	4-Jun	11-Jun	
	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	
Operating Disbursements	332	332	332	419	419	419	419	417	417	417	417	335	335	5,013
Other (Income)/Expenses														
Silverman Consulting	6	6	6	10	10	10	10	5	5	5	5	4	4	86
All Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt Service														-
Interest Payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bond Principal Payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Expenses/ (Income)	6	6	6	10	10	10	10	5	5	5	5	4	4	86
Total Disbursements	338	338	338	429	429	429	429	422	422	422	422	339	339	5,099
Net Cash Flow	(36)	(36)	(36)	(49)	(49)	(49)	(49)	(43)	(43)	(43)	(43)	(38)	(38)	(555)
Sources & Uses Summary														
Implied EBITDA	(29)	(29)	(29)	(39)	(39)	(39)	(39)	(38)	(38)	(38)	(38)	(34)	(34)	(465)
Accounts Receivable	(1)	(1)	(1)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	0	0	(4)
Accounts Payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accruals	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Working Capital	(1)	(1)	(1)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	0	0	(4)
Debt Service and Other														-
Interest Expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Silverman Consulting	(6)	(6)	(6)	(10)	(10)	(10)	(10)	(5)	(5)	(5)	(5)	(4)	(4)	(86)
Other Disbursements	(6)	(6)	(6)	(10)	(10)	(10)	(10)	(5)	(5)	(5)	(5)	(4)	(4)	(86)
(Increase)/Decrease in Cash	36	36	36	49	49	49	49	43	43	43	43	38	38	555

California-Nevada Methodist Homes
13-Week Cash Flow
Cash Rollforward

Description	March				April				May				June		TOTAL
	12-Mar	19-Mar	26-Mar	2-Apr	9-Apr	16-Apr	23-Apr	30-Apr	7-May	14-May	21-May	28-May	4-Jun	11-Jun	
	Actual	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected

CASH

Cash

Balance (Beginning)	-	1,690	1,653	1,617	1,581	1,531	1,482	1,432	1,383	1,340	1,297	1,254	1,211	1,173	1,690
Receipts	-	302	302	302	379	379	379	379	379	379	379	379	301	301	4,543
Disbursements	-	(338)	(338)	(338)	(429)	(429)	(429)	(429)	(422)	(422)	(422)	(422)	(339)	(339)	(5,099)
Cash	1,690	1,653	1,617	1,581	1,531	1,482	1,432	1,383	1,340	1,297	1,254	1,211	1,173	1,135	1,135
Increase/(Decrease)	-	(36)	(36)	(36)	(49)	(49)	(49)	(49)	(43)	(43)	(43)	(43)	(38)	(38)	(555)

1 HANSON BRIDGETT LLP
NEAL L. WOLF, SBN 202129
2 nwolf@hansonbridgett.com
425 Market Street, 26th Floor
3 San Francisco, California 94105
Telephone: (415) 777-3200
4 Facsimile: (415) 541-9366

5 *Proposed Attorneys for Debtor and Debtor in*
6 *Possession*

7
8 **SUPERIOR COURT OF THE STATE OF CALIFORNIA**
9 **COUNTY OF SAN FRANCISCO**

10
11 CALIFORNIA-NEVADA METHODIST
HOMES,¹

12 Debtor.

Case No. 21-40363

**FINAL ORDER (A) AUTHORIZING
POST-PETITION USE OF CASH
COLLATERAL, (B) GRANTING
ADEQUATE PROTECTION, AND (C)
GRANTING RELATED RELIEF**

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27 ¹ The last four digits of the Debtor's federal tax identification number are 2411. The
mailing address for the Debtor is 1850 Alice Street Oakland, CA 94612.

1 Upon consideration of the motion (the “**Motion**”)² of California-Nevada Methodist
2 Homes, as debtor and debtor in possession (the “**Debtor**”) in the above-captioned chapter
3 11 case (the “**Chapter 11 Case**”) pursuant to section 105, 361, 362, and 363 of title 11 of
4 the United States Code, 11 U.S.C. §§ 101-1532 (as amended, the “**Bankruptcy Code**”) for
5 entry of an interim order and final order (i) authorizing the use of cash collateral, (ii)
6 granting adequate protection, and (iii) providing related relief; and the Court having
7 jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334 and the *Order Referring*
8 *Bankruptcy Cases and Proceedings to Bankruptcy Judges*, General Order 24 (N.D. Cal.
9 Feb. 22, 2016), and Rule 5011-1(a) of the Bankruptcy Local Rules for the United States
10 District Court for the Northern District of California (the “**Bankruptcy Local Rules**”); and
11 this matter being a core proceeding pursuant to 28 U.S.C. § 157; and venue of these
12 Chapter 11 Cases and the Motion are proper in this District pursuant to 28 U.S.C. §§ 1408
13 and 1409; and due and proper notice of the Motion was sufficient under the circumstances,
14 and it appearing that other or further notice need not be provided; and the Court having
15 considered the Motion and the First Day Declaration and having considered the statements
16 of counsel and the evidence adduced with respect to the Motion at the hearing held before
17 this Court to consider the Motion on an interim basis (the “**Interim Hearing**”); and the Court
18 having entered an order (the “**Interim Order**”) granting the relief requested in the Motion
19 on an interim basis; and notice of the hearing held before this Court to consider the Motion
20 on a final basis (the “**Final Hearing**”) having been given to all appropriate parties on a
21 timely basis in accordance with the terms and conditions of the Interim Order; and a hearing
22 on the Final Order (the “**Final Hearing**”); and the Final Hearing having been conducted by
23 the Court; and the Court having found that the legal and factual bases set forth in the
24 Motion and at the Interim Hearing and the Final Hearing establish good and sufficient just

26 ² Capitalized words not otherwise defined herein shall have the same meanings
27 ascribed to such terms in the Motion.

1 cause for the relief granted in this final order (the “**Final Order**”),

2 **IT IS HEREBY ORDERED THAT:**

3 1. The Motion is hereby **GRANTED**, on an final basis, to the extent set forth in
4 this Final Order. Any objections to the Motion with respect to entry of this Final Order to
5 the extent not withdrawn, waived or otherwise resolved, and all reservation of rights
6 included therein, are hereby denied and overruled.

7 2. Subject to the terms and conditions set forth in this Final Order, the Debtor
8 is authorized pursuant to Bankruptcy Code sections 105, 361, 362, and 363, and
9 Bankruptcy Rules 2002, 4001, 6003, and 9014 to use cash collateral on a final basis. The
10 cash collateral may only be used to fund the types and corresponding amounts of
11 itemized expenditures contained in the budget attached hereto as Exhibit 1 (the
12 “**Budget**”); provided, however, that the Debtor may use cash collateral in excess of the
13 aggregate operating disbursements so long as the percentage of deviation of the
14 aggregated expenses during the 4 week measuring period does not exceed ten percent
15 (10%) (the “**Variance**”).

16 3. As adequate protection for the interest of Wilmington and Cal-Mortgage, for,
17 and solely to the extent of, any diminution in the value of Wilmington’s and Cal-
18 Mortgage’s respective interest in the Collateral resulting from (i) the Debtor’s use of cash
19 collateral, (ii) the use, sale, or lease of the Collateral (other than cash collateral) pursuant
20 to section 363(c) of the Bankruptcy Code, and (iii) the imposition of the automatic stay
21 pursuant to section 362(a) of the Bankruptcy Code, Wilmington and Cal-Mortgage are
22 hereby granted a continuing replacement security interest in, and lien
23 (collectively, the “**Adequate Protection Liens**”), which shall have the same priority,
24 validity, force, extent, status of perfection (if any), and effect as the prepetition liens that
25 they replace (the “**Prepetition Liens**”), effective as of the Petition Date without the
26 necessity of Wilmington or Cal-Mortgage taking any further action, upon the right, title and
27 interest in the following property of the Debtor:

a. All pre-petition Collateral of Wilmington or Cal-Mortgage, including all proceeds, profits, rents, and products thereof; and

b. Property acquired by the Debtor after the Petition Date, which is of the same nature, kind, and character as the prepetition Collateral, and all proceeds, profits, rents, and products thereof.

4. The Adequate Protection Liens shall be subject to (a) allowed professional fees and disbursements of professionals (i) retained by the Debtor, pursuant to Bankruptcy Code section 327 and (ii) by professionals retained by the official committee of unsecured creditors, if any, pursuant to Bankruptcy Code section 1103(a) and (b) statutory fees payable to the U.S. Trustee pursuant to 28 U.S.C. § 1930(a)(6), together with the statutory rate of interest, and any fees payable to the Clerk of the Bankruptcy Court (collectively, the “**Carve Out**”) and shall otherwise be junior only to any valid, perfected, unavoidable liens or security interests that are superior to the Prepetition Liens in existence as of the Petition Date, or any valid and unavoidable liens or security interests that are senior in priority to the Prepetition Liens that are perfected subsequent to the Petition Date as permitted by section 546(b) of the Bankruptcy Code (collectively, the “**Permitted Prior Liens**”). Except as provided herein, the Adequate Protection Liens shall not be made subject to or *pari passu* with any lien or security interest heretofore or hereinafter in the Chapter 11 Case or any Successor Case, and shall be valid and enforceable against any trustee appointed in the Chapter 11 Case or any Successor Case, or upon the dismissal of the Chapter 11 Case or in any other proceedings superseding or related to any of the foregoing (collectively, the “**Successor Case**”). The Adequate Protection Liens shall not be subject to sections 510, 549, or 550 of the Bankruptcy Code. No lien or interest avoided and preserved for the benefit of the estate pursuant to section 551 of the Bankruptcy Code shall be *pari passu* with or senior to the Prepetition Liens or the Adequate Protection Liens.

5. As further adequate protection of the interests of Wilmington and Cal-

Mortgage in the Collateral against any diminution in value of such interests in the Collateral Wilmington and Cal-Mortgage are hereby granted, subject to the Carve-Out, as, and to the extent provided by section 507(b) of the Bankruptcy Code, an allowed superpriority administrative expense claim in the Chapter 11 Case and any Successor Case (the “**Adequate Protection Superpriority Claims**”).

6. Except as set forth herein, the Adequate Protection Superpriority Claims shall have priority over all administrative expense claims and unsecured claims against the Debtor or its estate, now existing or hereafter arising, of any kind or nature whatsoever, as and to the extent provided by Bankruptcy Code Section 507(b); provided, however, that the Adequate Protection Superpriority Claims shall be subject to the Carve-Out

7. Nothing in this Final Order shall waive, impair, or preclude the right of the Debtor, or any other party in interest, to seek to avoid the liens of the Wilmington or Cal-Mortgage on the grounds that said liens were not perfected in a due and proper manner, or on any other appropriate grounds.

8. As additional protection for the Debtor's use of cash collateral, the Debtor shall provide to Wilmington and Cal-Mortgage (or their respective counsels of record, if any) on Wednesday of each week (commencing with the second week after the Petition Date), a weekly report in the same form as the Budget indicating all receipts received and disbursements made by the Debtor in the week ending the prior Friday compared to the Budget and detailing any variances of more than 10% from the disbursements and receipts in the Budget.

9. Notwithstanding Bankruptcy Rules 4001(a)(1) and 6004(h), to the extent applicable, this Final Order is not stayed and shall be effective upon the date of its entry on the docket.

10. The automatic stay of section 362 of the Bankruptcy Code is hereby modified to permit the performance of each and every right and obligation set forth in this

1 Final Order.

2 11. The Debtor is hereby authorized to take such actions and to execute such
3 documents as may be necessary to implement the relief granted by this Final Order.

4 12. The Court has and will retain jurisdiction to enforce this Final Order
5 according to its terms.

6 *** END OF ORDER ***

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